GOVERNMENT OF INDIA
POWER
LOK SABHA

STARRED QUESTION NO:414
ANSWERED ON:18.12.2000
POLICY ON ALLOCATION OF POWER
NEDURUMALLI JANARDHANA REDDY

Will the Minister of POWER be pleased to state:

(a) whether the Union Government have announced any policy for the allocation of electricity generated from its new projects by converting the existing Gadgil formula;

(b) if so, whether some of SEBs are not willing to undertake power reforms;

(c) if so, the details thereof; and

(d) the extent to which the new policy is likely to affect the working of SEBs and meet the power shortage in the country?

Answer

THE MINISTER OF POWER (SHRI SURESH P. PRABHU)

(a) & (d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF STARRED QUESTION NO. 414 TO BE ANSWERED IN TI LOK SABHA ON 18.12.2000 REGARDING POLICY ON ALLOCATION OF POWER.

(a): It has been decided by the Government to treat the `Formula` for allocation of power from Central Sector Generating Stations to the States/UTs as `Guidelines` for new Central Sector generating stations. The Salient features of the `Guidelines` are given at Annexure-I.

(b) & (c): The Conference of Chief Ministers and Power Ministers held in New Delhi on 26.2.2000 discussed various measures for improving viability of State Electricity Boards including compulsory metering and distribution reforms. The conclusions arrived at in the Conference are given at Annexure-II. The States of Orissa, Andhra Pradesh, Uttar Pradesh, Haryana, Karnataka and Rajasthan have unbundled their State Electricity Boards. Several States have taken a decision to undertake power sector reforms. 14 States (Orissa, Andhra Pradesh, Uttar Pradesh, Haryana, Karnataka, Rajasthan, Tamil Nadu, West Bengal, Gujarat, Maharashtra, Madhya Pradesh, Arunachal Pradesh, Delhi and Punjab) have since notified/constituted SERCs, with a view to undertake rationalisation of electricity tariff and to bring about transparency in relation to tariff and subsidies.

As a part of the strategy to give impetus to reforms and restructuring in the power sector, the Central Government has entered into Memorandum of Agreement (MOA) with the States of Uttar Pradesh, Karnataka and Madhya Pradesh, to support their reform efforts.

(d): The `guidelines` would enable reforming states in getting additional allocation of power from 15% unallocated quota in central sector power stations and also from new power projects.

Further, better commercial viability and resolutions of the problem of outstandings of the Central Power generating companies, as a result would enable them to grow faster and provide economical additional power needed by the country.

ANNEXURE-I

ANNEXURE REFERRED TO IN REPLY TO PART (a) OF LOK SABHA STARRED QUESTION NO.414 FOR 18-12-2000 REGARDING POLICY ON ALLOCATION OF POWER.

SALIENT FEATURES OF THE GUIDELINES

(i) It will not disturb the allocation already made under the `formula`. There will be no change to the contents of the `formula`.

(ii) Power from the new central sector power stations will be made in Accordance with `power purchase agreements (PPAs) to be signed between the CPSU and the State/UT or any of their authorized agency/Board.

(iii) First offer for purchase of power shall be made by the CPSI to each Constituent

(State/UT or their authorised agency) of the region as per their Entitlement.

(iv) In case any constituent of the region does not buy its share or part thereof, the CPSU shall have the right to sell that power to any other State/UT in accordance with the PPA to be entered into by them. However, such offer by the CPSU shall first be made to the State(s)/ UT(s) within the region(where power station) is located) before diverting the power to State(s)/UT(s) outside the region.

(v) Where there are more than one claimants to the surplus power, so offered, weightage in allocation shall be given to the power sector reforming State(s)/UT(s).

(vi) This does not affect allocation of 10% of the power to the State where the central thermal power plant is located and the 12% free power from the central Hydel power stations to the State(s)/UT(s) of the regions (including the State where the hydel project is located).

ANNEXURE-II

ANNEXURE REFERRED TO IN REPLY TO PARTS (b) AND (c) OF STARRED QUESTION NO.414 TO BE ANSWRED IN THE LO SABHA ON 18-12-2000 REGARDING POLICY ON ALLOCATION OF POWER.

RESOLUTIONS OF THE CHIEF MINISTERS/POWER MINISTERS CONFERENCE HELD ON 26-02-2000.

The Power Ministers` Conference took note of the impending difficult situation facingthe power supply industry in the country due to continuing decline in commercial viability of the sector as a whole. It noted the fact that :-

1. Outstanding dues of CPSIs have been increasing and have now reached Rs.23,000 crores.This trend if maintained would adversely affect their Current operations apart from inhibiting their future expansion plans.

2. Financial closure for private power projects is becoming increasingly Difficult.

3. The states are unable to finance new projects on their own.

4. Increased in budgetary support from State Governments as well as centralGovernment for this sector is not feasible due to fiscal deficits.

II. The primary factors responsible for this unsustainable financial situation are :

(i) Theft and pilferage at the macro level are estimated to be over Rs.20,000 crores per annum.

(ii) Technical losses in transmission & distribution for the country are also too High.

(iii) Large number of the thermal stations in the State sector run at an operational efficiency of less than 40%.

(iv) The average annual operational losses of the State Power Sector for the country is over Rs 12,000 crores.

III. It was also recognised that the corss subsidies cannot be sustained if industrial tariffsmake Industry non-competitive in the new environment of increasing globalisation with elimination of quantitative and other restrictions. It becomes necessary to ensure that Indian Industry is not handicapped by unsatisfactory power supply or by tariff which makes it non- competitive,. Further, the consumer, including the farmer has a legitimate claim for uninterrupted good quality power supply. His willingness to pay reasonable costs is underestimated.

RESOLUTIONS

1. The Power Ministers` resolved after taking into account all the problems facing the power sector, that with the intention of achieving commercial viability and providing power at reasonable rate to all, reform must be undertaken with determination, vigor and a sense of urgency. Delay in reform only increases the financial cost of reforms, and the burden of liabilities only increases. Reforms must begin to show results within the next 2-3 years. The key elements of the reform strategy are :-

(a) Energy Audit at all levels.

(b) Time-bound programme of 100% metering of all consumers by Dec.2001.

(c) Reduction and finally, elimination of power theft within a specified time frame.

(d) Strengthening/upgradation of sub-transmission and distribution system by Taking sub-station as an unit on a priority basis.

2. If the above appears unattainable in the existing set up corporatization/ cooperatization/privatization of distribution, would have to be undertaken.

3. Since a large number of thermal stations within the State sector are running at a PLFbelow 40%, immediate Renovation & Modernisation including Life Extension would need to be undertaken on aurgent basis. Similarly, R&M/LE would require to be

undertaken for old hydel power plants on priority.

4. Effective functioning of State Electricity Regulatory Commissions is essential for rationalizationof tariff, and balancing the interests of the consumer and the need for commercial viability f the utilities in the environment where private sector participation in the industry is expected to gradually increase.

5. Unbundling and corporatization of State Electricity Boards/bench-marking through separatedistribution profit centres/corporations/companies may facilitate the Regulatory Commissions inpromoting competition within the power supply industry - competition being the key to lower prices.

6. It was noted that the power system network in country`s an unmatched reach to consumers and with the installation of optic fibre cables along the existing power lines using its right of way, it has the potential of generating very large resources in the coming years by providing facilities for multipurpose communication including cable TV, IT services, Telecom services etc. Hence efforts need to be made to creatively tap this potential source of large revenue from convergence.

7. In order to promote reforms, a new draft central legislation which obviates the need for separate enactments for the States, is being considered. The draft Bill submitted by the NCAER wouldform the basis for a national debate and a consensus on the contents of the new Bill. The States would be sending their detailed comments on this draft Bill, to the Ministry of Power at the earliest.